"We'll offer Flex, T1, and 24 channels to be used for voice, data, or bandwidth to Santa Rosa and Petaluma customers at lower rates than the other providers. We want to be to mid-size companies what Pacific Bell and Verizon are to the large enterprise," says Mr. Jalkut.

"We've devoted custom packages for the insurance, real estate, and small banking industries, and we give them quality of service they won't get from the larger providers."

Keys to survival

TelePacific, which employs 400 companywide, is hiring in the North Bay "as we speak," says Mr. Jalkut. "We've brought on 15-20 former ATG employees, including Andrew Peretti as our local sales manager. We'll keep hiring until we can't sell any more service. Sonoma County is a fertile market."

GE Capital, which reportedly considered the Santa Rosa/Petaluma subscribers easy money, will have to scramble. GE Capital spokesman John Oliver says the company can't comment on strategy while regulatory issues are still being addressed. Final approval of the sale is expected in October.

After that, mid-size companies in Sonoma County will enjoy the attentions of three suitors, an unusual state of affairs at a time when major carriers have been successful at outlasting the competition.

"TelePacific is still in business, because we've kept debt down and our focus regional," says Mr. Jalkut. "Although the ATG operations in Washington and Oregon looked attractive, our business plan calls for building subscribership in California and Nevada before we go anyplace else."

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By ELIZABETH DOUGLASS, Times Staff Writer

Monday, April 19, 1999 - Things are going well for David P. Glickman. He's standing in a room with $10 million worth of phone equipment. He has signed contracts with several major Los Angeles companies that will bring $2 million a month in business. A floor above him, colleagues are completing negotiations with an institutional investor who plans to invest about $15 million in his company.

All this after just a few months in business. Glickman's company, Los Angeles-based TelePacific Communications, sells local phone service as well as high-speed Internet access, long-distance and international calling and other features.

TelePacific is one of hundreds of companies angling for a slice of California's business phone market. But what makes this company unusual is that it's one of the few to have accomplished so much so fast.

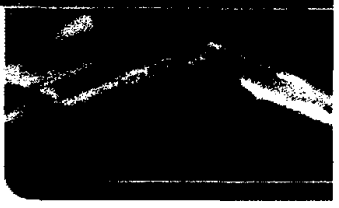
The company has raised $7 million from "friends and family," Glickman said, and TelePacific is working on a credit line to finance further expansion this year into the small- and medium-sized business communities in San Francisco, San Diego and Las Vegas.

Last week, TelePacific acquired DigitalVelocity, a Los Angeles-based Internet service provider for businesses, in a stock deal of unspecified value. Glickman said TelePacific will focus on California and Nevada, and hopes to capture more than 5% of the California telecommunications market by 2008.

That's an ambitious goal for a start-up with only 45 employees--especially since it must lure that business from such entrenched powerhouses as Pacific Bell and GTE Corp.

But the company plans to grow to 200 workers by the end of the year. And it already boasts nearly 100 years of combined telecommunications experience among its top executives, many of whom came from one of the country's most successful local phone competitors--Teleport Communications Group, or TCG, which was bought last year by AT&T Corp.

Three-fourths of TelePacific's employees have TCG roots. The



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company's vice presidents for sales, business development and operations are also former TCG executives.

"Almost all of our people have local exchange experience and startup experience," Glickman said

Glickman's own experience didn't come from TCG but from six years at the helm of Justice Technology Corp., a Culver City company that started out handling specialized overseas calling and now is on pace to sell more than $100 million in long-distance services this year.

In 1998, Justice topped Inc. magazine's list of the nation's fastest-growing private companies (based on 1997 results).

TelePacific was spun off from Justice in mid-1998. Glickman remains chairman of Justice but has also joined the new firm as chairman and chief executive.

TelePacific's executive team was a key selling point for Rader Reinfrank & Co., the Los Angeles-based private investment firm that agreed to invest $15 million in the young phone company, according to R. Rudolph Reinfrank, a managing member at the firm

TelePacific is currently the largest single investment for the firm, which has bought into several other media and communications companies. "In a deregulating and newly competitive market, we think TelePacific's focus on customer service will be a defining factor" in the telecommunications business, Reinfrank said. "We think there is plenty of market share to be had by providing a combination of customer service, quality and price versus Pacific Bell and GTE."

The company's small size and experienced staff have allowed it to remain nimble in the highly competitive market, where companies must earn customer trust while navigating regulatory, technical and competitive pitfalls.

For James Dorian, president of Los Angeles startup First American Bank, TelePacific's handling of a rush phone-installation job for the bank sold him on its service.

"We gave them a chance, and they proved themselves," Dorian said. "They did it literally overnight . . . and they are much less expensive than some of the more established companies."

TelePacific has also used its ability to move quickly to secure critical equipment. While exploring purchases, TelePacific got wind of a new switch that would soon be sold by a company that had filed for bankruptcy. The switch was available at a good price and was already installed and ready to go in the third floor of a downtown Los Angeles building, Glickman said.

And finally, to help win clients the company not only offers low phone rates but also gives certain customers the opportunity to share some revenue. "We are out-of-the-box thinkers," Glickman said.

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DECLARATION OF CLAIRE BETH NOGAY

EXHIBIT 13

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About XO

Welcome

While other companies are talking about making telecommunications simple, XO actually delivers simplicity without compromising the level of service that business customers expect. XO is able to cut through the clutter in the telecom space and offer businesses what they need: a reliable, end-to-end source for telecom services with a broad product suite backed by trustworthy, dependable customer service. XO offers new customers a no-risk satisfaction guarantee on standard products and services for the first three months after installation.

Everything You Want. Exactly What You Need.

[redacted]

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Corporate Headquarters

1.703.547.2000

Contact us online

Areas of Interest

Company Information

See why businesses just like yours have found a happy ending with the XO story.

- Proven Leadership and Innovation
- Network Assets
- Customer Centric
- Extensive Product Portfolio

Investor Relations

View the latest financial information through a comprehensive listing of all XO™ Annual Reports, Quarterly Earnings Statements, and other pertinent financial news.

Business Code of Ethics (PDF)

This document contains the XO Policy and Ethics for all XO employees, as required for posting by the SEC.

XO Customer Testimonials

Hear what our customers are saying about us.

The XO Network

XO has a unique ability to serve customers from premise-to-premise over XO facilities, ultimately ensuring the highest levels of performance and reliability. See what makes our network unique.

Careers

Interested in a career with a truly unique telecommunications company? Explore our career center for the latest job postings and company information. If you find the perfect listing, submit your resume online.

See Also:

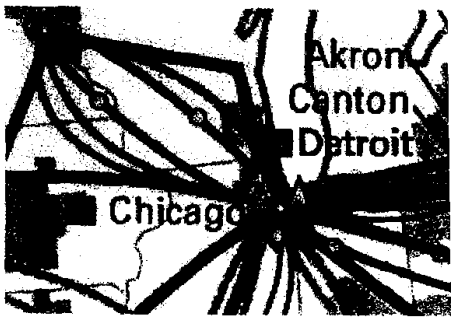
Our Story

Network Assets

XO™ has a wealth of network assets that ensure we can handle your current needs and that we're well positioned for the convergence of voice and data IP services. XO has an OC-192 IP backbone with OC-12 uplinks in our markets and data centers; that means we have one of the highest capacity and scalable IP backbones in the industry, along with the highest levels of performance and reliability. A suite of world-class tools that facilitate the communication of customer information and continuous network monitoring set the XO network apart from its rivals.

View Network Maps

NEXT: Customer Centric Focus



XO™ Network At A Glance

- 2300+ on-network buildings
- Multiple data centers and a 24x7 network operations center
- 300-plus DSL access points
- 100+ Tier One peering Points of Presence (POPs) offering direct access to 85% of Internet traffic
- OC-192 backbone
- Total fiber: approximately 1,158,000 miles
- 34 Nortel DMS-500 switches for local and long distance voice
- Sonus Networks softswitches for handling next-generation traffic
- Fixed wireless licenses covering 95% of the top U.S. business markets

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XO™ Network

Overview

XO™ has a wealth of network assets that ensure we can handle your current needs and that we're well positioned for the convergence of voice and data IP services. XO has an OC-192 IP backbone with OC-12 uplinks in our markets and data centers; that means we have one of the highest capacity and scalable IP backbones in the industry, along with the highest levels of performance and reliability. A suite of world-class tools that facilitate the communication of customer information and continuous network monitoring set the XO network apart from its rivals.

Benefits

- **High capacity OC-192 IP backbone** provides speed, capacity and flexibility today while allowing XO to offer services that take advantage of future IP technological evolutions
- **Peering infrastructure to the Internet** with more than 100 private and public peering relationships, XO provides direct paths to all other major Network Service Providers so that your Internet traffic travels with peak speed
- **Dedicated Internet Access and DSL access POPs** in the local markets The extensive XO footprint ensures controlled connectivity costs

More Information

Network Maps

Network Diagnostic Tools

XO Network At A Glance

View complete network details

OC-192 backbone

2300+ on-network buildings

Multiple data centers and a 24x7 network operations center

300-plus DSL access points

Access to more than 100+ peering partners offering direct access to 85% of Internet traffic

Total fiber: approximately 1,158,000 miles

34 Nortel DMS-500 switches for local and long distance voice

Sonus Networks softswitches for handling next-generation traffic

Fixed wireless licenses covering 95% of the top U.S. business markets

View complete network details

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What's Hot

- America's Network Names XO™ Best Internet Access Provider
- Boardwatch Ranks XO™ Second in Backbone Performance
- XO Provides Broadband Services Using Upgraded Nationwide OC-192 IP Backbone Network

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  Examine connectivity, path, and route information in XO Data Network
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XO™ Network

Network Details

Core OC-192 IP Backbone

The core of the XO backbone network is a mesh of OC-192 circuits, connecting XO Peering POPs and XO Data Centers. The XO OC-192 IP backbone runs completely across its own Inter-city facilities. Using a mesh of physically diverse OC-192 circuits, this backbone interconnects our five data centers with multiple high-capacity peering interconnections. Additionally, XO offers Dedicated Internet Access (DIA), DSL and Dial customers enhanced Internet connectivity by connecting each DIA market to the OC-192 backbone with dual OC-12c SONET-protected circuits*. This network design delivers maximum end-to-end throughput as well as high levels of protection and redundancy.

Our OC-192 backbone utilizes an advanced IP design, ensuring scalability as well as the ability to offer advanced future IP services plus the added benefit of no single IP point of failure past the customers' access port.

And since the XO OC-192 backbone and market connections run end-to-end across XO facilities, XO can quickly resolve any problems that may occur without any delays; this eliminates many of the common failure points found in older network designs.

Peering Infrastructure

As one of the few fully peered, facilities-based Tier 1 network backbone providers in the U.S., XO has substantial private peering arrangements in many metropolitan areas at speeds of up to OC-12. As a Tier 1 Internet provider, XO is constantly improving its peering infrastructure to benefit our customers. Those advantages include:

- Multiple and geographically redundant dedicated connections to other Tier 1 Internet backbones. Dedicated and private connections mean traffic crosses the XO backbone and the peering partner's backbone only. Customers benefit because data packets to and from the peering networks reach their end destination quickly and with lower risk of loss.
- XO peering relationships are monitored and maintained 24x7.
- Quality control of the XO network because we don't have to rely on other networks for Internet connectivity.

Connectivity from Internet Access POPs to the XO™ backbone

XO currently offers Dedicated Internet Access connections via 36 Metro POPs in 31 markets and DSL connections in 45 markets. All DIA markets are connected to the closest OC-192 IP Core Node; dual uplinks are provided from each Metro market into the closest Inter-city core node at speeds from OC-3c (155 Mbps) to OC-48c (2.4 Gbps)

[redacted]

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- XO Provides Broadband Services Using Upgraded Nationwide OC-192 IP Backbone Network

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Network Diagnostic Tools

Examine connectivity, path, and route information in XO Data Network. Use Network Diagnostic Tools

View XO IP Assets Map

- Normal View - 800 x 600 (100 KB)
- Large View - 1600x1200 (215 KB)

Metro Fiber Connectivity

Metro Area Networks (MANs) allow XO to control customer traffic and ensure an efficient data transfer to the Inter-city network. XO™ metro-area networks are composed of enough metro fiber-optic cable to circle the globe more than 45 times – 1.16 million metro fiber miles throughout 40 major US cities, including the largest 30 cities in the United States.

Unlike non-facilities based providers or long-haul providers, XO, with its MANs, has access to the end customer. The MANs enable XO to offer such dynamic products as Ethernet and SONET services that carry data faster and more efficiently than our competition. that carry data faster and more efficiently than our competition.

Wireless Spectrum

XO owns the largest footprint of U.S. fixed wireless spectrum, which covers 95% of the population in the top 30 U.S. cities. The frequency of the spectrum is 27 GHz-32 GHz and allows XO to offer broadband access services using Local-to-Multipoint Distribution System (LMDS) technology. This enables XO to bypass the Regional Bell Operating Companies (RBOCs) and provide direct access to our end customers.

View XO Market and Fixed Wireless Spectrum Map

- Normal View - 800x600 (100 KB)
- Large View - 1600x1200 (215 KB)

The Intercity Fiber Network

XO has deployed an OC-192 (10 Gbps) network using Dense Wavelength Division Multiplexing (DWDM) routing technology. This Inter-city network spans 16,000 route miles across the continental United States. The extensive reach of the XO fiber network affords XO the unprecedented ability to manage customer data from the point of access to the point of termination. Owning such a vast network facility gives XO the power to:

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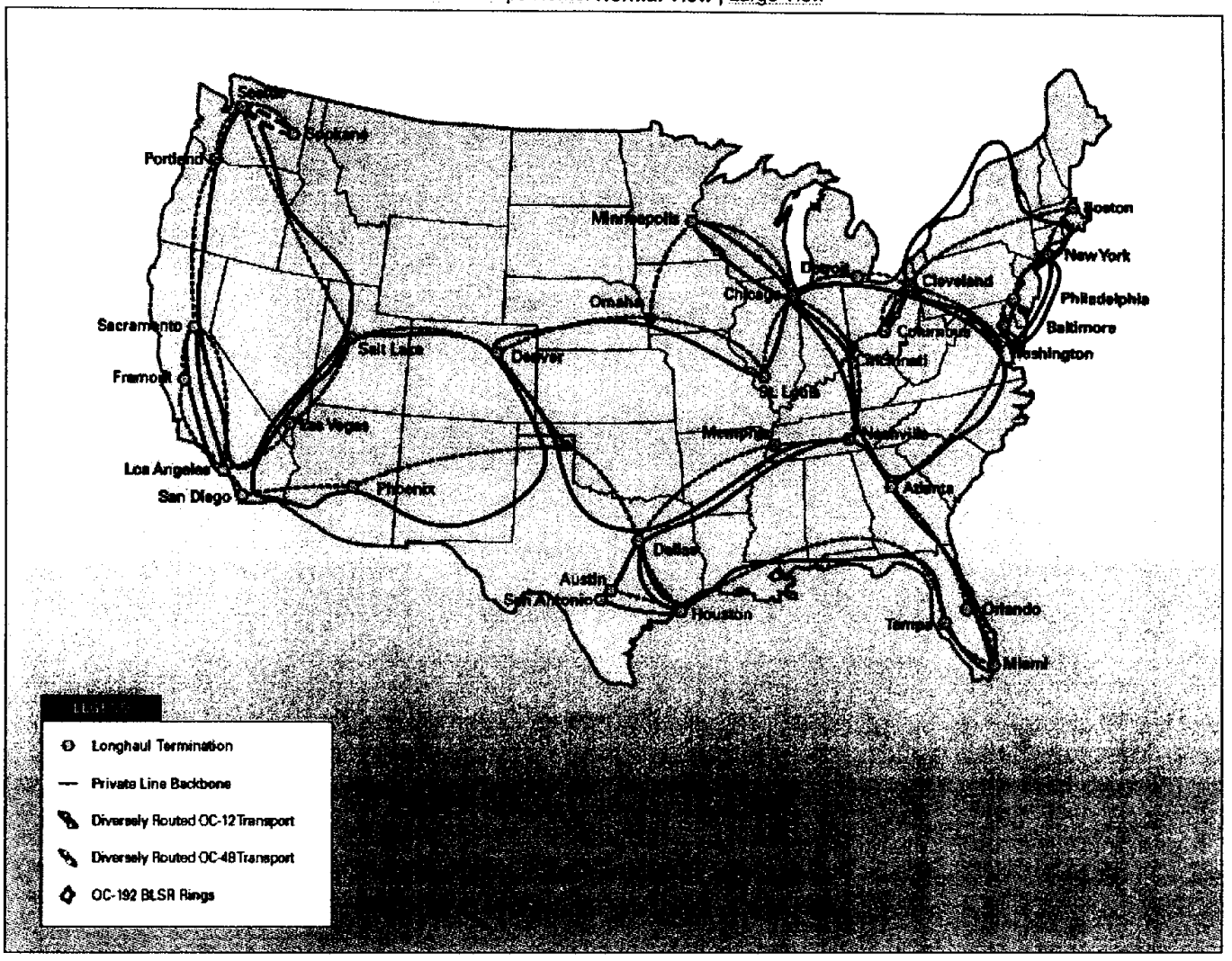
- scale immediately to meet customer demand
- quickly respond to network issues and
- control prices charged to customers.

See Also:

- Network Diagnostic Tools
  Examine connectivity, path, and route information in XO Data Network
- XO Factsheet
- XO Product Portfolio

Private Line Assets

Network Maps Home: **Normal View** | Large View



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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	
Unbundled Access to Network Elements	WC Docket No. 04-313
Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers	CC Docket No. 01-338

DECLARATION OF ERIC J. BRUNO

1. My name is Eric J. Bruno. I am the Vice President, Product and Portfolio Management, Enterprise Solutions Group, for Verizon. In this role, I am responsible for product management, portfolio management, offer planning and development, lifecycle management, forecasting, and market program prioritization, for all of the products and services Verizon offers to its largest commercial and governmental customers. Previously, I was the Vice President, IP Offer Management, Enterprise Solutions Group, for Verizon. In this role, I was responsible for Internet Protocol ("IP") offer planning and development, lifecycle management, forecasting, pricing and implementation. I have more than fifteen years of experience in the communications industry with significant assignments in business market strategy, competitive planning and response, market management, large business sales, and long distance.

2. The purpose of my declaration is to describe the provision of telecommunications services to large enterprise customers and Verizon's experience in competing for these customers, which are considered among the most valuable retail segments of the

telecommunications industry. The market for these customers is highly competitive, and thus far Verizon has had limited success competing against the more dominant, but less regulated, traditional long distance and other carriers that have focused on this market segment. In Section I, I describe the characteristics of large enterprise customers and the telecommunications services they purchase. Among other things, I explain that large enterprise customers are the largest retail consumers of high-capacity services. In Section II, I describe how telecommunications service providers serve large enterprise customers. I explain that, because large enterprise customers are typically concentrated in major metropolitan areas and business parks, yet often maintain many geographically dispersed offices, to win these customers' business, it is often necessary to be able to offer these customers packages of services that provide end-to-end connectivity throughout the country. I further explain that, because no one telecommunications provider owns facilities that are capable of serving all the needs of these customers, it is common for carriers to provide service by combining their own networks and services with those of other providers. In Section III, I explain that, due to the characteristics of large enterprise customers, and to various regulatory restrictions, Verizon has traditionally had difficulty serving these customers and to date has achieved very limited success. The provision of telecommunications services to enterprise customers is instead dominated by competing carriers, including the three major traditional long-distance carriers and a number of other carriers that have focused on this market segment.

I. Characteristics of Large Enterprise Customers.

3. Verizon defines large enterprise customers to include large commercial, institutional, and governmental entities, such as Fortune 1000 companies; universities and financial concerns; and various entities of federal, state, and local governments.

4. Large enterprise customers rely heavily on telecommunications services to perform their own mission-critical applications. Large enterprise customers use multiple telecommunication services, which may include local and long distance voice service; ATM, Frame Relay, or other packet-switched data services; dedicated private lines; Wide Area Network ("WAN") services; wireless services; data backup, storage, and retrieval services; and provisioning and maintenance services for telecommunications equipment.

5. Large enterprise customers spend very large amounts of money on telecommunications services and are, therefore, considered the most valuable retail segment of the telecommunications industry.

6. Because of the amount of telecommunications traffic large enterprise customers generate and because of their need for the most reliable and sophisticated services, large enterprise customers rely heavily on dedicated high-capacity telecommunications services. In Verizon's experience, large enterprise customers are in fact the primary retail purchasers of high-capacity services among Verizon's retail customers. For example, while Verizon provides only a small fraction of the high capacity services that large enterprise customers purchase, these customers nonetheless account for 87 percent of the high-capacity special access revenues that Verizon provides on a retail basis.

7. Large enterprise customers also require telecommunications services that provide end-to-end connectivity between various locations throughout the country and often the world.

This is due to how large enterprise customers set up their corporate operations. Large enterprise customers tend to locate the headquarters of their operations in densely populated metropolitan areas and commercial districts. As a result, the greatest concentrations of enterprise customers are situated in the downtown business districts of major cities. In addition, because of their size, large enterprise customers often have satellite locations or branch offices located in major metropolitan areas and commercial districts throughout the United States (and in many cases around the world). These satellite locations and branch offices may be located close to an enterprise customer's main office or facility, or hundreds or thousands of miles away from it. A large enterprise customer's satellite locations and branch offices may operate as extensions of the enterprise customer's core business or may serve as secondary locations in the event that a power interruption or major disaster threatens to disrupt the activities of the main office. Whatever the case, these satellite locations and branch offices tend to generate large volumes of traffic on their own and, therefore, often require dedicated high-capacity telecommunications facilities.

8. Because large enterprise customers require sophisticated high-capacity services that provide end-to-end connectivity across broad geographic areas, large enterprise customers often seek one or two primary telecommunications service providers that are capable of serving all of their telecommunications needs. This enables the large enterprise customer to shift the burden of constructing and operating a far-flung network to the carrier while creating a single point of accountability. Large enterprise customers often employ their own internal telecommunications specialists to evaluate, select, and manage their telecommunications vendors and to negotiate contracts to obtain the fastest, most reliable service for the lowest costs.

II. How Telecommunications Carriers Serve Large Enterprise Customers.

9. In order to become a primary service provider for a large enterprise customer, a telecommunications carrier must be able to provide the full range of sophisticated telecommunications services that large enterprise customers require, including end-to-end connectivity between these customers' various locations. It must be able to do so while ensuring high quality service and reliability at competitive prices.

10. No telecommunications carrier in the United States, including Verizon and the other Bell Operating Companies, has ubiquitous high-capacity telecommunications facilities that are capable of serving all the needs of large enterprise customers. As a result, Verizon and other telecommunications carriers must serve large enterprise customers by piecing together networks from multiple sources and then combining these various components together to form virtual end-to-end networks.

11. The first step in serving a large enterprise customer is to provide connectivity between the customer's premises and the telecommunications carrier's network (its point of presence ("POP"), fiber ring, or serving wire center). Telecommunications carriers provide these connections using their own high-capacity facilities or high-capacity facilities that they obtain from other providers. Many competing carries have deployed their own high-capacity fiber facilities in the metropolitan areas and business parks where large enterprise customers tend to be concentrated and directly to the office buildings that house these customers. A telecommunications carrier also may obtain high-capacity facilities from the incumbent LEC by purchasing special access service under tariffed volume and term discounts.

12. Next, it is necessary to connect a large enterprise customer's main office to its branch offices or to other distant locations. Here, too, the telecommunications carrier may either

use its own facilities or partner with other telecommunications carriers or suppliers for any additional facilities needed to fill the gap in the carrier's network. The telecommunications carrier also may purchase special access services from incumbent LECs under tariffed volume and term discounts.

III. Competitors Dominate The Provision of Service to Large Enterprise Customers.

13. Verizon has traditionally had difficulty serving enterprise customers and to date has achieved very limited success. The provision of services to enterprise customers has instead been dominated by competing carriers, including, in particular, the three traditional long-distance carriers, as well as a number of other carriers that have focused on this market segment.

14. Historically, Verizon has not been a major competitor in the provision of service to large enterprise customers, either within Verizon's own region or outside its region. This was due principally to the fact that Verizon had generally been precluded from providing interLATA services. As discussed above, large enterprise customers generally require integrated end-to-end services, which in the majority of cases contain an interLATA component. Since Verizon could not, until recently, offer interLATA transport between large enterprise customer premises in one area of its serving territory (New York City for example) and the customers' satellite offices or other locations in another part of its serving territory (Baltimore, for example), Verizon could not provide the majority of the high capacity services, such as end-to-end high capacity private line, ATM, or Frame Relay services, that large enterprise customers require. Verizon was likewise precluded from providing interLATA services that originated in its region and terminated at points outside its region (Chicago, for example).

15. Large enterprise customers have focused their demand on other carriers that were not subject to the same regulatory constraints. The three traditional long-distance carriers –

AT&T, MCI, and Sprint – have been particularly successful in serving large enterprise customers, and remain the predominant providers in the provision of these services today. There are also a number of other competing carriers, such as Qwest and Time Warner, and local utilities, such as Con Ed, that have been very successful in serving enterprise customers.

16. In the wake of obtaining authority to provide interLATA services, Verizon began competing for large enterprise customers. Because of the need for national and international communications by these customers, even small gaps in coverage resulted in a significant competitive disadvantage. As a result, Verizon could not compete seriously for such business until it had received authority to provide long distance service in *all* of its service territories, which occurred just last year. Even today, however, Verizon still is subject to burdensome regulations that its competitors do not face and that make it difficult for Verizon to compete for large enterprise customers' business. Verizon has nonetheless competed actively for this business against multiple rivals. Because of the degree of competition and regulatory impediments faced by Verizon, Verizon has achieved only limited success in serving these customers to date.

17. Verizon collects data on many of its large enterprise customers to determine their telecommunications needs and expenditures. Verizon obtains this information through a variety of sources, such as publicly available documents published or filed by the enterprise customer, discussions with these customers' internal telecommunications teams and account managers, and analysts or others in the industry who may have knowledge about a particular customer.

18. Using this information, Verizon monitors the types of services required by its large enterprise customers, the various carriers providing those services under contract or other arrangements, and when those arrangements may expire. Compiling this information enables

Verizon to identify opportunities to submit proposals to large enterprise customers. Verizon also tracks both the amount that large enterprise customers spend with Verizon, in terms of Total Billed Revenue ("TBR"), as well as what – to the best of its knowledge – the customer spends with other carriers for its various telecommunications needs.

19. In the course of preparing this declaration, Verizon studied the telecommunications spending practices of 24 of its largest 80 customers in the New York City metropolitan area, each of which purchases significant amounts of high-capacity services. This study revealed that among these 24 customers, Verizon earned only a small portion of the revenue expended by these customers for telecommunications services. The 24 customers studied spent a total of $4.1 billion annually for telecommunications services, ranging from $7.6 million to $1 billion. Overall, only 8.7 percent of that $4.1 billion — or $361 million— was spent to purchase telecommunications services from Verizon.

20. Verizon's experience in bidding for new contracts with large enterprise customers provides additional evidence of the intense competition for these customers. Since the beginning of 2003, Verizon has responded to at least 302 Request for Proposals ("RFPs") from potential large enterprise customers. On average, there were *over 5 carriers* responding to each of those RFPs. To date, Verizon has won contracts for only 68 of the 203 RFPs for which, to Verizon's knowledge, final selections have been made, and even among those that Verizon "won," Verizon was not selected to provide all of the services the customer desired.

21. Verizon has lost other bids to competitive alternatives. One included a bid to provide a major diversified international corporation multiple access services – DS-1s, DS-3s, OC-3 point-to-point services, and Synchronous Optical Network (SONET) rings – nationwide.[1]

[1] SONET rings are capable of transporting DS-1s, DS-3s, OCn and now Ethernet services.

22. Another example included an opportunity to provide a financial services company with connections between Wilmington, Delaware and Philadelphia, Pennsylvania. This opportunity included long distance private lines (OC-3s and DS-3s) that were to be carried from an inter-exchange carriers' POPs in Philadelphia to the customer's locations in Delaware. Verizon could not meet AT&T's lower price point and did not win the business for either the local access SONET service or long distance private lines services.

23. Verizon also lost an opportunity to provide another financial services company with Dense Wave Division Multiplexing (DWDM) service, a high-capacity, dedicated transport service between New York and New Jersey.[2] The proposal included a partial DVDM ring in New York and another partial ring in New Jersey. Verizon lost the bid again because it could not match the prices provided by AT&T.

24. In many instances, competing providers are able to beat our prices, even using high capacity facilities purchased from Verizon, because they purchase those high capacity facilities from Verizon at wholesale volume and term discounts that are 35 to 40 percent off the monthly tariffed rates. Where the large enterprise customer either does not meet the volume requirements to qualify for these larger discounts and/or does not want to commit to maintaining the circuit for the longer term periods Verizon's competing carriers do, the competing provider's cost is already 35 to 40 percent lower than what the large enterprise customer would pay to obtain the same service from Verizon's Enterprise Solutions Group if the customer simply ordered at the monthly rates available in tariff. This gives Verizon's competitors a tremendous margin to work with in competing for large enterprise customers. When one adds to these additional discounts these competing carriers receive under price flex contracts, they may be

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[2] DWDM rings are capable of transporting OCn, Ethernet, Storage and IBM Mainframe protocols.

obtaining the facilities at wholesale rates that are anywhere from 45 to 70 percent lower than the monthly tariffed rates.

25. Accordingly, the starting price point for the competing provider that is not subject to price caps and tariffing restrictions is somewhere between the monthly tariffed rates and the lowest cost the competing provider is paying Verizon to lease the circuit. So if the monthly tariff rates is $400, for example, the price range the competing provider may offer the customers is somewhere between $400 and the lowest price the competing provider is paying Verizon for the circuit the competing provider is reselling. Even taking the lower end of the average discount carrier customers receive under volume and term discount plans, 35 percent, the competing provider may offer the services to the customer for something between $400 and $260. If the carrier customer is receiving additional discounts off that particular service under a price flex contract, the range may be even greater. Indeed, a competing provider that is receiving an additional 30 percent of the service under a price flex offering may have a "break even" point as low as $120 – what the competing provider had to pay Verizon for the circuit.

26. For Verizon to win customers and compete in the presence of multiple alternative carriers, Verizon must offer large discounts off of its tariffed rates and through pricing flexibility. Last year, for example, a major bank put out a request for bids to upgrade all of its branch office communications facilities. Several other carriers also competed for this business. Specifically, the customer requested bids for DS-1s and DS-3s to these branch offices and SONET rings to provide redundancy and loop protection for the DS-3s riding the network. In addition to providing Verizon's own facilities, a solution for this customer required that Verizon also obtain facilities outside its serving area. Verizon obtained the facilities outside its serving territory from other carriers and, with pricing flexibility, Verizon was able to develop a solution that allowed

the customer to purchase 2 E-IDSR (IntelliLight Dedicated Sonet Ring) rings supporting 4-25 DS-3s and 450-1000 DS-1s. The offer provided the customer an effective discount for these services of 24 percent off the 5-year term plan rates for DS-3s and 16 percent for DS-1s, resulting in as much as 59 percent off the monthly rates for DS-3s and 54 percent for DS-1s.

27. Verizon had a similar experience responding to a request from a pharmaceutical retailer, where Verizon was competing with several carriers, including the major long distance carriers, for its business. The customer wanted to upgrade from its existing Frame Relay network to SONET services and wanted DS-1s to serve a number of pharmacies it had located in the New York and New Jersey areas. Verizon developed an offer that allowed the customer to achieve discounts of 20 percent off of the SONET rings by subscribing to a promotional offer that Verizon had put in place and tariffed for SONET services early in the year and to obtain discounts of up to 13 percent off 5-year term rates for DS-1 services, as much as 50 percent off the month-to-month rates.

28. In addition to price reductions driven by these customer specific requests, Verizon also has been able to offer large enterprise customers discounts based on product specific promotions made in the last year. One included an additional 33 percent off of the discounted 3, 5, and 7-year term rates for new IOTS. Another included 20 percent off the month-to-month, 3, and 5-year term rates and 10 percent off the 7-year term rates for new IDSR and e-IDSR rings. These promotions were made specifically to respond to market competition for these services. While Verizon's Enterprise Solutions Group has only begun to make strides into the larger enterprise market, pricing flexibility has allowed Verizon to compete more effectively with the larger carriers who have dominated this market.

29. In sum, Verizon's experience shows that it is not the availability of unbundled network elements, but rather intense competition in the market for high capacity services that has driven prices for special access services lower and will continue to do so.

30. This concludes my declaration.

I hereby certify under penalty of perjury that the foregoing is true to the best of my knowledge, information, and belief.

Executed on October 4, 2004.

Eric J. Bruno